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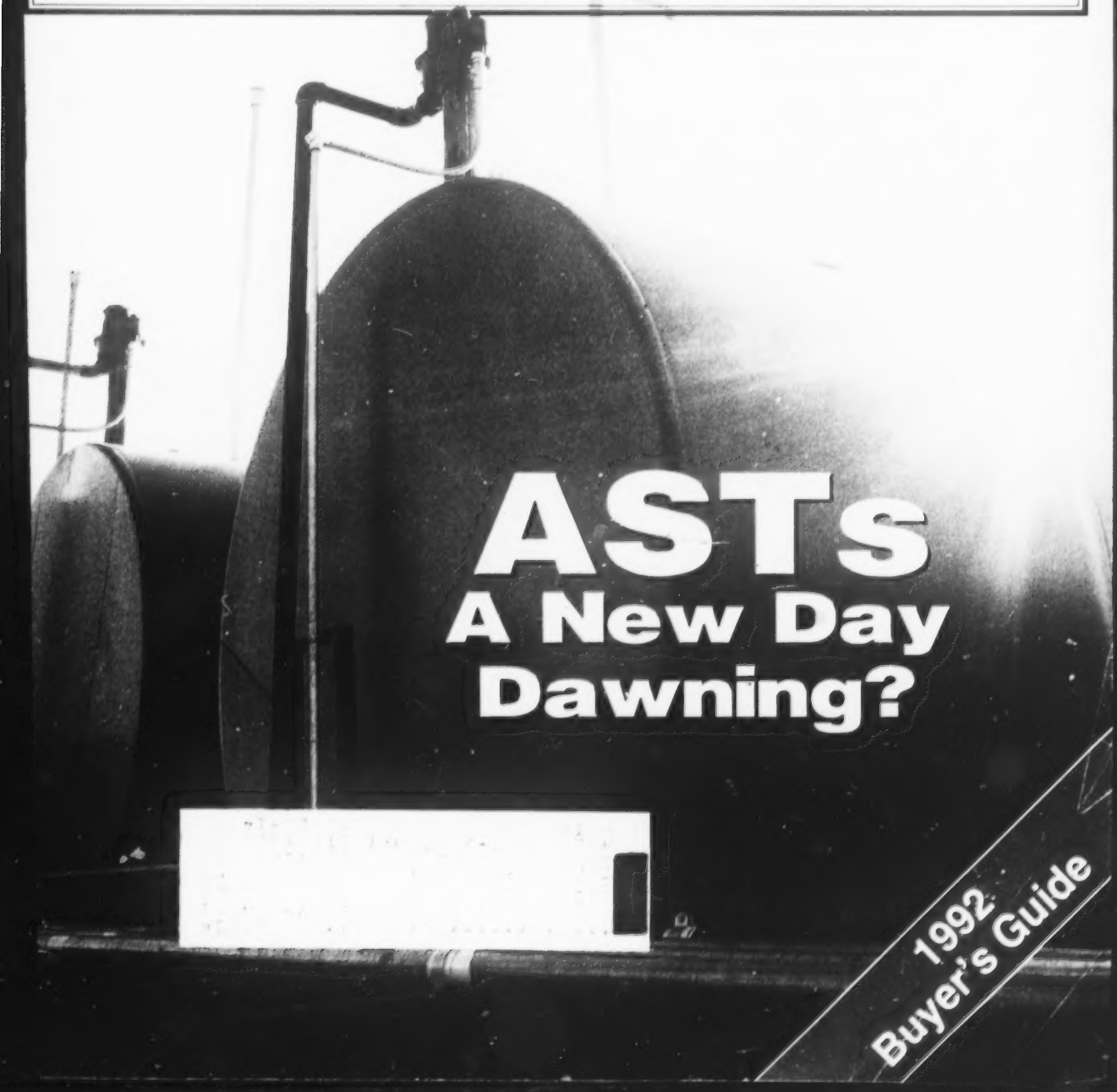
How Oil Companies Should Restructure TBA
Converting Free Car Washes to Profit Centers
Independent Refiner/Marketers Form New Group

NPN

National Petroleum News



ASTs
A New Day Dawning?

1992 Buyer's Guide

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Editor's Viewpoint

About 18 months ago, I had a conversation with a marketer—a very successful one—during a reception at one of the annual industry conventions. Looking around the large reception hall, filled to overflowing with his colleagues in the petroleum business, this marketer commented, "If we don't get this situation [anti-competitive market pricing] resolved, half of the people you see in this room won't show up at next year's convention. They'll be out of business."

Fast-forward to next year's convention. Same reception. Same big crowd. And, lo and behold, most of the marketers (perhaps 90%) who "showed up" for this gathering had also been present at the previous year's meeting. The anticipated massacre had not taken place. A few were missing, to be sure. But even though the pricing situation had not yet been resolved, the marketer I had chatted with had greatly underestimated the resiliency, the ingenuity and the sheer determination to survive most marketers possess.

There are serious problems in our industry today, problems perhaps more serious and numerous than we've ever experienced. Pricing volatility is just one of these. Recession, soft demand, an unending deluge of environmental mandates, difficulties in obtaining needed financing, government intrusion into every nook and cranny of your business operations—the list goes on and on.

The problems are real, but not insurmountable. In time, many of these problems will fade away. The recession will be over and consumers will be in a buying mood again. Product demand will firm up. And suppliers and marketers and dealers will discover, once again, that the most logical and beneficial relationship takes the form of a partnership, not a confrontation.

We all have a tendency to get bogged down in daily concerns; putting out a fire here, grabbing for short-term profits there. There's too much short-haul thinking and not enough long-range planning—building an agenda and an investment program for one, two, five years down the road.

Bad news gets the headlines. Too often, this subverts our attention away from the very real opportunies we have to grow and prosper in the future. And there are opportunities aplenty for marketers, independents, convenience store operators and major oil companies in the years ahead.

Just one example is the opening up of the international petroleum market in Eastern Europe and Russia, in Latin America and in the Pacific Rim countries. U.S. oil companies and even a few marketers have already staked out a presence in some of those markets.

The opportunities are there, but it will take vision and long-range planning to make the most of them.

—Don Smith

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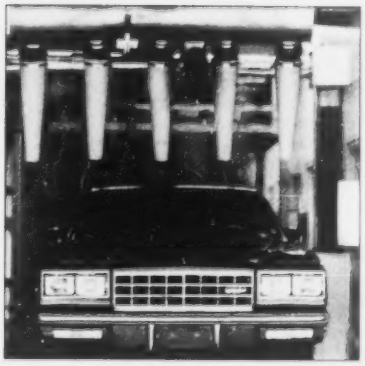

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Earnings: What a Difference a Year Makes

Isolate the fourth-quarter and full-year earnings reported by the major oil companies and top independent refiner/marketers for 1991 and the figures don't look all that bad, in themselves. Put the earnings numbers up against those of many of the non-petroleum industrial giants—autos, for example—and the numbers look downright rosy.

But compare the 1991 earnings of these same companies with those reported this time last year, for 1990, and the reaction runs something like, "Oh my, what happened?"

What happened, of course, was a recession that wouldn't quit, soft demand, soft prices, tight margins and assorted other negatives. It should be recalled, too—as if anyone could forget—that the fourth quarter of 1990 was that sliver of time when the Persian Gulf crisis contributed dramatically to a runup in earnings for most of the major companies. In 1990, nine oil companies earned over $1-billion for the year (total $18-billion). In 1991, the "billionaire's club" dropped to five members with a combined gross earnings of $11.3-billion.

As usual, Exxon led the earnings pack in 1991 with profits of $5.6-billion, up 11.8% over the previous year. However, the other 20 reporting companies, without exception, reported earnings declines from the previous year. In 1991's fourth quarter, only Murphy and Fina said they had improved earnings compared to the year earlier.

Downstream earnings, buoyed somewhat by early 1991 declines in feedstock prices and high refinery utilization, were pretty decent for several companies. For example, almost half of Exxon's corporate earnings came from its domestic and foreign downstream operations.

Mobil's 1991 downstream earnings were up 47% from the previous year, despite a big drop (86%) in fourth-quarter downstream profits. Texaco and Amoco also reported substantial increases in downstream earnings for the year and for the fourth quarter as well. On the minus side in refining and marketing earnings were Chevron, Shell, Arco, Phillips, Sun and Marathon.

Corporate: Fourth-Quarter and Full-Year Earnings
1991 vs. 1990
(million dollars)

	4th-Qtr. 1991	4th-Qtr. 1990	% Chng.	Full-Year 1991	Full-Year 1990	% Chng.
Exxon	$1,120.0	$1,555.0	(28.0)	$5,600.0	$5,010.0	11.8
Mobil	401.0	651.0	(38.4)	1,921.0	1,929.0	(0.4)
Chevron	39.0	633.0	(93.8)	1,293.0	2,157.0	(40.1)
Amoco	200.0	538.0	(62.8)	1,220.0	1,913.0	(36.2)
Shell	(23.0)	446.0	—	20.0	1,036.0	(98.1)
Texaco	324.0	388.0	(16.5)	1,294.0	1,450.0	(10.6)
Arco	268.0	566.0	(52.7)	709.0	2,011.1	(64.7)
BP America	n/a	n/a	n/a	n/a	n/a	n/a
Phillips	79.0	237.0	(66.7)	258.0	779.0	(66.9)
Conoco	54.0	405.0	(86.6)	814.0	1,078.0	(24.5)
Unocal	(16.0)	38.0	—	73.0	401.0	(81.8)
Marathon	(148.0)	328.0	—	358.0	1,081.0	(66.9)
Coastal	12.4	94.9	(86.9)	96.3	225.6	(57.3)
Sun	(35.0)	18.0	—	(387.0)	229.0	—
Amerada Hess	(51.6)	235.2	—	84.3	482.7	(82.5)
Pennzoil	4.4	29.9	(85.2)	21.0	93.8	(77.6)
Ashland	29.0	(10.8)	—	[1st Qtr. fiscal ends 9/30]		
Kerr-McGee	34.8	49.9	(30.3)	101.0	150.2	(32.8)
Murphy	24.9	18.9	31.7	(11.0)	113.9	—
Fina	21.8	19.6	11.2	42.0	125.5	(66.6)
Citgo	n/a	n/a	n/a	332.8	327.8	1.5
Dia. Shamrock	(2.3)	7.7	—	37.1	77.5	(52.1)
Total Petroleum	(10.7)	(3.6)	—	(9.3)	31.2	—

Downstream: Fourth-Quarter and Full-Year Earnings
1991 vs. 1990
(million dollars)

Exxon Total	$261	$306	(15)%	$2,556	$1,315	94%
Domestic	47	(24)	—	514	78	559
Foreign	214	328	(35)	$2,042	$1,237	65
Mobil Total	37	258	(86)	931	633	47
Domestic	(87)	16	—	118	91	30
Foreign	124	242	(49)	813	542	50
Chevron Total	(76)	150	—	333	763	(56)
Domestic	(226)	—	—	(153)	376	—
Foreign	150	150	0	486	387	26
Texaco Total	170	(15)	—	835	618	35
Domestic	(19)	(65)	—	188	244	(23)
Foreign	189	50	278	647	374	73
Amoco (worldwide)	109	78	40	644	370	74
Shell	(127)	23	—	(164)	88	—
BP America	n/a	n/a	n/a	n/a	n/a	n/a
Arco	48	54	(11)	266	439	(39)
Phillips	(7)	(15)	53	88	145	(39)
Conoco	n/a	162	n/a	n/a	562	n/a
Sun	(14)	(15)	7	105	155	(32)
Marathon	83	69	20	401	551	(27)

• TRENDS

Emissions Mandate Means EVs Are Coming

Electric automobiles are coming, no doubt about it. These vehicles do pose a threat to gasoline marketers—though not a critical one in the foreseeable future—because electricity is not an "alternative" fuel. Alternative fuels at least have the potential to be marketed by the same companies now marketing gasoline and in approximately the same way, but electricity does not.

Electric cars will most likely be recharged at home in the garage at night, and also at recharging stations provided in parking garages and other appropriate public places. Rechargers will be plugged into conventional 120-volt AC receptables, according to current thinking.

The coming of electric vehicles (EVs) is inevitable because they are being mandated in California. Auto manufacturers who want to sell cars in that state will have to develop electric ones. Every major auto manufacturer has one in the works, it's reported. Once EVs become available, they'll soon be available everywhere, though it's not clear who will buy them.

The South Coast Air Quality Management District (SCAQMD), covering the greater Los Angeles area, backed away from its incredible goal of all zero-emission vehicles in two decades. Zero emission means electric, at this stage of technology, anyway. The management district's mandatory target now is more than 1-million EVs by 2010 in four counties: Los Angeles, Orange, Riverside and San Bernardino.

SCAQMD is planning for 17% of cars being powered by electricity in 18 years. This projection translates into 1.3-million electric cars. Daniel Sperling, director of the Institute for Transporation Studies at the University of California, Davis, believes this goal won't likely be reached without incentives, such as more state tax breaks, preferential parking by local governments and government or utility subsidies of home-recharging equipment, which is estimated to cost $100 to $900.

Major auto manufacturers are working on EVs for introduction in the mid-1990s. This will set them up, at least in theory, to meet the California Air Resources Board (CARB) statewide mandate of 5% of new cars, about 40,000, electric in 1998, and 10%, or 200,000, of new cars in 2003. These goals are not as stiff as the SCAQMD's, but they cover a lot more territory.

Nobody knows how many EVs people will buy. California recently began offering a sales tax exemption and a $1,000 state income tax credit for converted electric cars, but the U.C. researchers say this is not enough to promote widespread purchases of new electric cars once they become available.

The researchers think EV buyers would probably need to own more than one vehicle because of its short driving range, 70-120 miles. EVs would cost about twice as much as conventional gasoline-driven vehicles, so many people couldn't afford them.

A 1988 Los Angeles initiative, which sponsored a worldwide competition for the design of 10,000 EVs for southern California drivers, resulted in a contract with Clean Air Transport, a Swedish-English consortium. The company is designing a hybrid gasoline-electric engine expected to be priced in the mid-$20,000 range and franchised through local dealers.

Such a vehicle would enable drivers to switch to gasoline when their batteries ran down, but air-pollution authorities won't be satisfied with that in the long run, they say. They mean a zero-emission vehicle. This standard would even ban another hybrid design, EVs charged by a small, onboard gasoline engine, 15-hp or so.

The exact EV configuration hasn't emerged yet. There are a lot of peole working on development of the various technologies involved, especially batteries. The Japanese are working on the problem, too, and are said to have some surprises in store.

All-electric urban automobile transportation is no doubt a long way off, if it ever comes. Maybe by the time it arrives, petroleum marketers can figure out a way to market electricity at charging stations. —*Mark Emond*

• MARKETPLACE AT A GLANCE

AVERAGE GASOLINE PRICES IN THE U.S. (per gal.)

DECEMBER	Gasoline (All types)	Leaded Regular	Unleaded Regular	Unleaded Premium
U.S. City Avg.	$1.182	*	$1.123	$1.309
Regions				
Northeast	1.269	*	1.191	1.400
North Central	1.150	*	1.112	1.280
South	1.171	*	1.100	1.278
West	1.155	*	1.112	1.289

** Data no longer collected or available.*
Source: U.S. Dept. of Labor, Bureau of Labor Statistics.

STOCKS (Add 000 bbl.)

	2/1/92	1/25/91
Gasoline (Total)	224,670	220,949
Unleaded (*)	176,475	172,665
Jet Kerosine	44,624	45,135
Distillates	110,683	115,372
Residual	48,289	49,679

(*) Leaded regular prices no longer collected by Bureau of Labor Statistics.
Source: American Petroleum Institute.

Why and How Oil Companies Should Restructure Their TBA

Oil companies, including their service stations, have been losing ground in the automotive aftermarket for many years, although they are still strong, with 22% of the service outlets and 21% market share [*NPN*—Oct. '91, p47]. The decline continues, however, and the future isn't bright for TBA marketers who don't change in step with trends.

This is not to say that conventional service stations can't be profitable doing what they are doing and have always done. They can be, and there are very successful ones to prove it. But oil-company TBA (tires, batteries, accessories) programs are running into stronger forces and need rethinking and restructuring to keep them profitable or make them more so.

This is the view of Arthur Chiang, a principal in the engineering and manufacturing group of Booz, Allen & Hamilton management consulting firm, Chicago office. Chiang, who has consulted with TBA manufacturers, distributors and retailers, concludes that "trends are not favorable for TBA businesses," by which he means those of oil companies and of the traditional aftermarket—from manufacturers to warehouse distributors (WDs) to jobbers to service stations.

This was a gloomy message to deliver to a national convention of the International Oil Industry TBA Group, but Chiang presented a brighter, positive side, too. He said, "At the same time, there are opportunities to respond to the aftermarket trends, restructure, and shape strong and profitable TBA businesses."

He offers four major suggestions for oil-company TBA programs:

- Certain aftermarket trends are unfavorable [as we shall see], and the status quo has to change.
- The strength of your TBA business is linked to the strength of your service stations, and any TBA strategy should be developed in harness with a service station strategy.
- Because of the likely downsizing of the business, restructuring your TBA is inevitable. You will likely have customers that are unprofitable and need to be rationalized. There are also product lines that are unprofitable and have to be rationalized. And some streamlining of operations is necessary as well.
- As this restructuring takes place, your TBA businesses can form alliances with other program groups. This will enhance your own business, the business of the program group and the business of your service station customers.

By Mark Emond
Staff Reporter

What's unfavorable?

As a foundation for deciding on an action program, the trends in the automotive aftermarket must be understood. There are many trends to consider. Here are some Chiang singles out.

The automotive aftermarket is in general mature, with very slow growth in prospect. The typical oil-company TBA business is, for the most part, the distribution of private-brand products to service stations. Both aspects are in trouble.

- Private-brand tires, for example, are less attractive to customers than they once were. In the mid-'80s, over half of the replacement tires were private brands. In the '90s, nearly 60% of the replacement tires are manufacturers' brands. Tire manufacturers have been much more aggressive in pushing their brands, and consumers have responded.
- The decline in the number of service stations has been going on continuously since the '70s, driven by market conditions and by the gasoline marketing strategies of increasing station throughputs and adding convenience stores. In the mid-'60s, more than 80% of automotive service and repair outlets were gasoline stations. Today the number has fallen to about 20%. The remaining 80% is independents, chains and franchises (such as Midas and Goodyear) and new-car dealers.

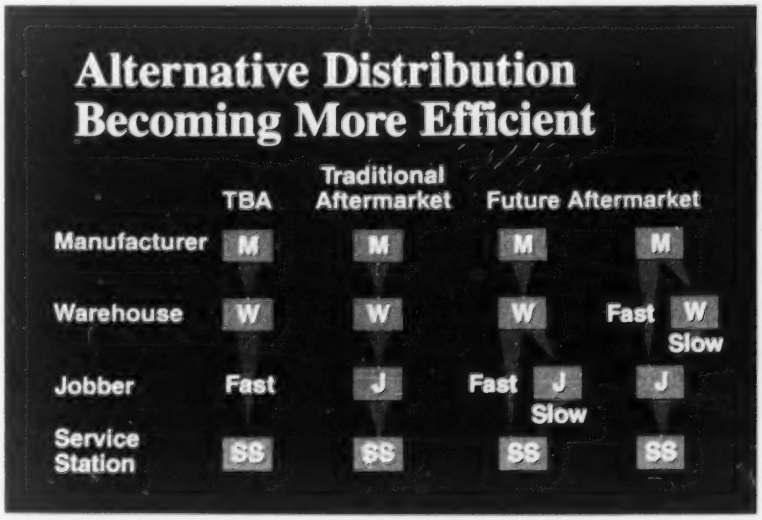
Gauging disadvantages

Competitors of service stations have cost advantages and strong marketing formats, Chiang continues. The accompanying chart shows the cost advantages in doing brake work by specialist repair and tire store outlets compared with service stations.

These competitors have materials cost advantages because of their aggressive buying programs. Specialists have lower labor costs because of their focus on specific repairs. These advantages are partially neutralized by their large expenditures on marketing and advertising. The advantage of both competitors in fixed shop costs stems from their large six-bay to eight-bay stations, allowing them to amortize the costs over greater volume.

New-car dealers are making a comeback in repair service. Weak auto sales volume drives dealers to bolster repair income. Warranty programs are expanding in coverage and duration. Improved quality of vehicles and fewer repairs are both bad news for the TBA business.

Automotive aftermarket distribution is becoming more efficient. As shown in the



Two-step distribution for fast-moving lines will improve efficiency in getting TBA/parts to end users.

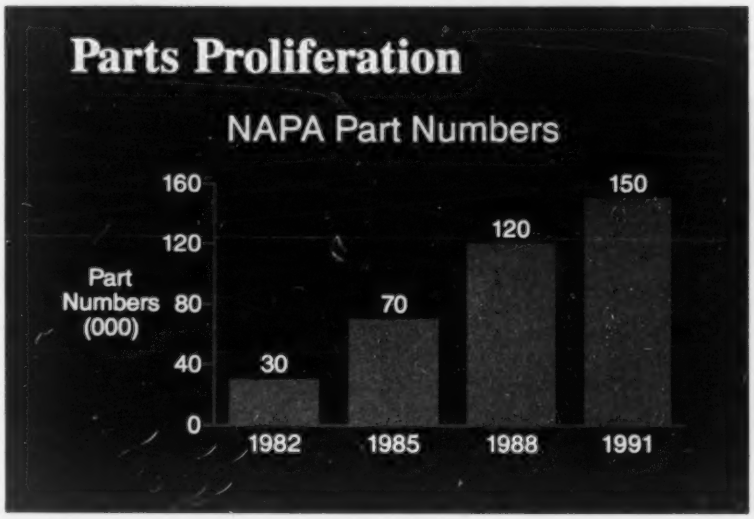
accompanying chart, oil-company TBA programs distribute fast-moving products directly from warehouse to service station. These are structurally more efficient and less costly than the traditional aftermarket, which adds a step from warehouse to jobber to service station.

The traditional aftermarket moves both fast and slow products through a three-step channel. However, it is recognizing the need to become more efficient and is restructuring distribution to flow fast-moving parts through two steps instead of three. As it succeeds, it will have a cost advantage because of its larger scale and systems capabilities.

The number of parts needed to service automotive vehicles has grown fivefold in the past decade, mostly because of increasing imports and models. From 30,000 in 1982, the number has grown to 150,000 in 1991 (see chart). This has important consequences for competing channels of distribution.

Fast-moving products represent only 5% of the total number of products service stations require. The three-step traditional channel has significantly lower costs in distributing the remaining 95%, the slower-moving items. That segment of the market is going to expand in volume because of parts proliferation.

Parts proliferation should continue in the '90s. Multiple nameplate models are continuing to increase. For example, Mazda is going to create a new nameplate. Models are being restyled every three years, compared with 5-10 years in the past. As component systems change from mechanical to electromechanical or electronic, whole new categories of part numbers will be created within product lines.



Astronomical parts proliferation has put a premium on developing more efficient distribution.

TBA pluses

Oil-company TBA distribution is losing its cost advantage, but it should be able to price competitively in the marketplace and be profitable, Chiang believes. This is because of the way pricing is done in the aftermarket.

Manufacturers establish resale prices for the traditional channel at every level of the chain. These result in an average gross margin regardless of the distribution cost of the product.

These pricing structures give oil-company TBA two advantages in the marketplace. One is that oil companies can buy for less because they sell large numbers of fast-moving products. Manufacturers price to earn a consistent margin across low-volume and high-volume products; therefore, they earn a higher net profit on the high-volume parts. The higher net profit on the fast-moving parts compensates for the lower net profit on the slow-moving parts.

The manufacturers actually earn equal or higher profits on these lower prices to oil companies because they do not have to subsidize the lower net profits from the low-volume parts which are necessary for the traditional channel.

The second advantage is that there is a pricing umbrella at the installer level of the market. Because the resale price structures establish average gross margins at every level of the chain, the prices for fast-moving parts are artificially high at the installer level to cover the high cost of distributing slow-moving parts. This provides a pricing umbrella under which oil companies can operate.

Down with the status quo

For oil companies, to accept the status quo in the automotive aftermarket is to accept inevitable decline and, as they say, suffer death by a thousand cuts, Chiang says.

The challenge that confronts oil-company TBA is how to strengthen the business in the face of the aftermarket trends. There are three basic challenges for oil companies. They must:

- Develop service station strategies that strengthen the TBA customer base and ensure an enduring business.
- Restructure to reflect the inevitable downsizing of the business.
- Extend the reach of the TBA business through alliances with other parts distributors.

Some oil companies wish that service stations would just go away, Chiang says. Automotive repair is a different business and creates headaches for oil marketers. There is no profit for the oil company in auto repairs.

"But the service stations are too important to ignore," declares Chiang. "Service stations are an integral element of the gasoline marketing strategy. The service stations represent a large share of gasoline volume, and it is not economical to convert all the service stations to C-store-type operations.

"At most service stations, the contribution from the gasoline alone is not suffi-

"At the same time, there are opportunities to respond to the aftermarket trends, restructure, and shape strong and profitable TBA businesses."
—Arthur Chiang

A Parts and Labor Warranty Program Is Now Available to Independents

Independent auto service dealers who aren't part of an established nationwide parts and labor warranty program can now belong to one—"Pronto Protection Plus Nationwide Warranty." Pronto is a nationwide auto parts system of jobbers and 150 warehouse distributors.

Car-care warranties are widespread in the oil industry, with Shell's Auto Care, Amoco's Certicare, Sun's Ultra, Mobil's Car Care Network and Chevron's Auto Pledge, but independent installers do not share this competitive advantage.

This is Pronto's target group. "This will be the first in the automotive aftermarket," says William R. Jones, president of American Automotive Aftermarket Network Inc., which administers the program for Pronto. "Pronto has taken a quantum step in filling a warranty void for these dealers in the secondary and rural markets."

Pronto's overall auto parts program provides, in addition to the new nationwide warranty, national and local advertising, technical training, point-of-sale signs, parts stocking, customer followup and preventive-maintenance and promotional merchandising assistance.

Warranty members pay $70/mo. for coverage. If a job comes back to the installer, he fixes it. If the failure takes place 50 miles or more from the facility, Pronto fixes it. Towing is not covered. All claims must be approved by the nationwide warranty center prior to being eligible for payment.

"Pronto has taken a quantum step in filling a warranty void for these dealers in the secondary and rural markets."
—William R. Jones

Repairs are guaranteed for four months and 6,000 miles. Pronto recommends that dealers buy parts with equal or longer guarantees. Approved types of repairs are tire repair, mounting and balancing; front-end alignment; suspension and front-end; brakes; clutch, power steering; engine tuneup; heating and air conditioning; electrical system; and minor automobile repairs and services.

Excluded repairs are any engine repairs or component replacement of internally lubricated components or replacement of engine assembly; transmission/transaxles; drive-axle/differential assemblies; and autobody, paint, molding and glass.

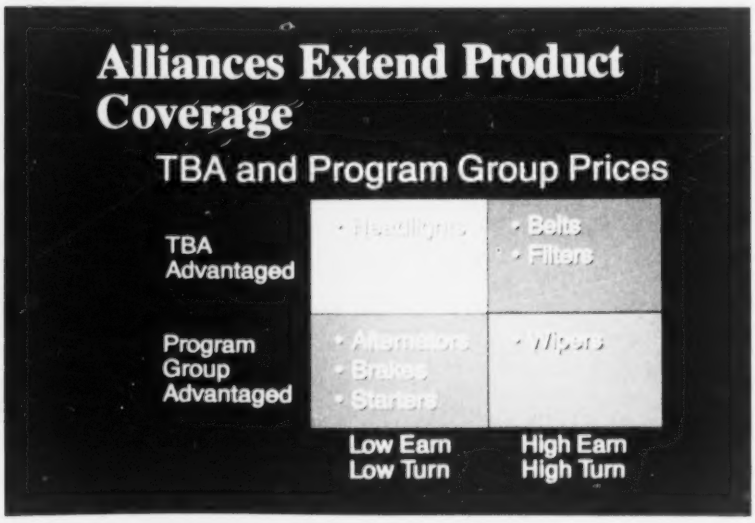
Contact Pronto Protection Plus Warranty Program at P.O. Box 1088, Arvada, CO 80001. Or contact the American Automotive Aftermarket Network Inc. at (303) 421-0622, fax (303) 421-0693.

cient to support the site; therefore, the auto repair contribution is critical to the viability of that site and to maintaining the site to market gasoline."

Chiang disagrees with conventional wisdom that views the service station as a dinosaur. He says consumer research shows that there are several large segments of consumers that are attracted to service stations:

- Consumers who want to take their cars to a mechanic they know and trust.
- Consumers who want to take their cars to conveniently located sites.
- Consumers who want to go to one location for all their auto needs—because it is convenient, and also because they don't have to build new relationships with numerous mechanics, many of whom they probably don't know and instinctively mistrust.

Service stations have the big advantage that the gasoline business builds a customer base and also contributes income to cover many of the fixed costs of the business.



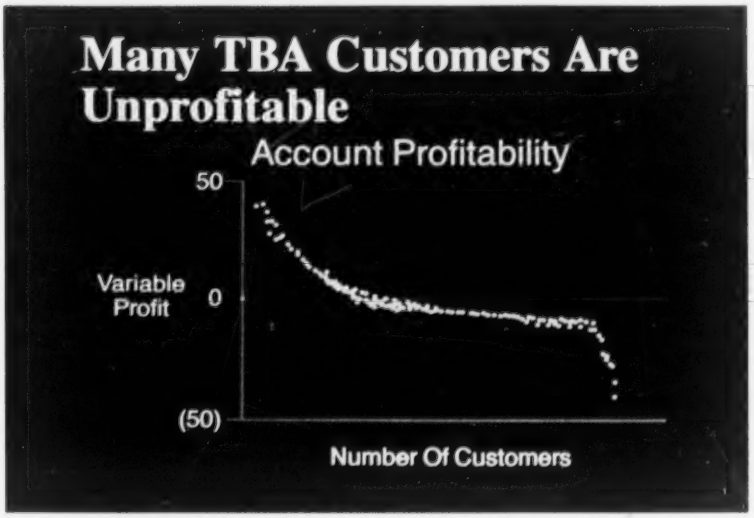
Evolving aftermarket structure will show new alliances between oil company, TBA and traditional parts distributors.

Two bays can work

Chiang says one reason service stations are considered dinosaurs is that many have only two bays, but he believes even two-bay stations can be viable.

Assumptions that multiple bays of undercar specialists and tire stores enable them to amortize their fixed costs over the larger scale of their six-bay to eight-bay facilities are based on presumed full utilization of the capacity, which isn't so.

"In reality, the undercar specialists and the tire stores do not utilize their capacity," Chiang asserts. "On average, the service stations have as much revenue per bay as the undercar specialists and the tire stores, and in many cases have far superior



TBA customers, individually or in segments, are not equally profitable, since costs of serving those customers are inherently variable.

utilization of their bays [see chart].

"Many two-bay service station dealers have demonstrated that they can attract the consumer segments that would prefer to be served by service stations and, with the contribution from both auto repair and gasoline, can earn attractive profits and compete in the aftermarket."

Developing TBA programs

Many of the cost advantages of service stations are based on operational differences, not structural differences, Chiang says. "The reason these operational disadvantages exist is that the service stations suffer from neglect."

In order to be a leading service repair chain in the automotive aftermarket, the business system must have certain elements. "Most of the service stations today are not operating under such a business system," he explains. "Developing a strong aftermarket business system is a key element of developing the service station strategy."

Here's what a service station business system should have:

- Means of communicating to motorists the positive characteristics that distinguish the station from all other repair service alternatives, and why motorists should prefer it.
- A station image that supports this message.
- A package of services that supports the distinguishing characteristics and the image. Although warranties are becoming more extensive, potentially taking away business from service stations, they will never cover recurring repairs such as brakes, because car manufacturers couldn't afford it.
- Advertising and marketing programs that communicate to consumers what products and services are being offered and draw them into the station.
- Operating procedures to provide high-quality customer service and efficient operating costs.
- A supply source for both TBA and non-TBA products that ensures competitive costs, a key area for repair service profitability.
- Computer systems and training.

Going with trends

Oil companies need to restructure their TBA programs to reflect aftermarket trends, Chiang says. Specifically, TBA suppliers must manage the profitability to the supplier of each customer, optimize product lines and form alliances.

Based on Booz, Allen & Hamilton's work with aftermarket distributors, many TBA customers are unprofitable to the supplier, as the accompanying chart shows. Each dot represents a customer of an aftermarket distributor. The dot is the variable profit, that is, revenue less direct variable costs, which is the profitability of that customer to the supplier.

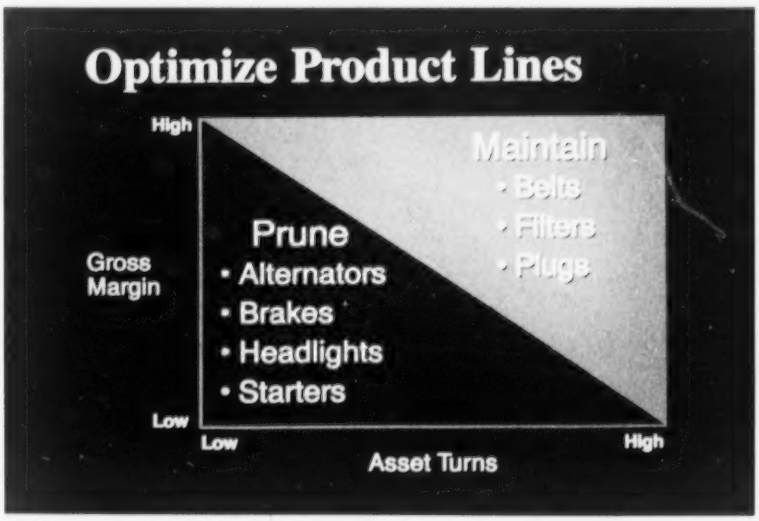
"Since the aftermarket distributor did not have a good understanding of its variable costs to serve each customer, it had no idea that a large portion of its customer base was unprofitable," Chiang explains.

"Our hypothesis is that if we apply the same analysis to your TBA customers [dealers, distributors], we would find the same situation. The hypothesis is that 20-40% of your customers are probably generating 80% of your revenues and nearly all of your profitability, while the remaining 60-80% of your customers are generating very little of your revenue and yet are generating a sizable amount of your costs and are unprofitable."

Once you understand the costs of serving individual customers and segments of customers, you need to "reconfigure your operations to serve those customers more economically and establish new pricing structures," says Chiang.

Here are some TBA operating cost variables:

- Type of customer. For example, gasoline-only stations have different characteristics than service stations.
- Volume of customer. The larger customers likely cost less to serve than do the



Oil company TBA programs should focus on products lines with high inventory turns and gross margins.

How Head-to-Head Competition Outperforms Niche Marketing

Oil companies should battle head-to-head with top competitors in the automotive aftermarket, instead of seeking seemingly secure niches as many have in the past, says William R. Jones, president of Warranty Service Systems Inc. (WSSI), Denver.

"During the 1980s we saw a competitive strategy which was guided by the idea that businesses should find uncrowded niches and develop products and services unimpaired by direct competition," he said, describing it as a "defensive strategy" with "disastrous results."

Speaking at a recent convention of the International Oil Industry TBA Group, Jones said head-to-head competition has several advantages: it builds organizational strength, it accelerates organizational learning and development, it encourages organizations to service their customers better and it simplifies a company's strategic agenda.

WSSI, which provides nationwide warranty administration services for TBA programs, pioneered Shell's Auto Care warranty in 1985 and now provides warranty services at over 7,000 outlets for what Jones calls "the nation's largest company-owned and dealer networks in the automotive aftermarket."

Jones described a new trend, "data-base marketing," which focuses on specific individuals, not generalized customers. This is a service offered by another of his companies, Data National.

He said, "Data-base marketing means turning away from throwing advertising and promotion at the great, faceless crowd known as the mass market and turning towards focusing communications on individual customers known by name, address, vehicle, type of services performed and other relevant information stored in a relational data base."

Computers can also be used to analyze the results of training by examining work orders and sales invoices. Jones said, "This type of close relationship between training and marketing will be where companies will be separated in the head-to-head competition of the '90s."

smaller customers.

- Product mix. Some products are more profitable than others.
- Order frequency and size of each order. The customer that has fewer, larger orders is more profitable than a customer with many, smaller orders.
- Location. A customer located in a major metropolitan area close to your warehouse costs less to serve than one located in a rural area.

Optimizing product lines

Product lines are not equally profitable. Some are big moneymakers, and some are probably losers. The key is to concentrate on the moneymakers and perhaps cull the losers.

Determine the high-margin, high-turn product lines. These are probably very profitable. Determine the low-margin, low-turn product lines. These are probably unprofitable. This kind analysis is commonly called an "earn and turn."

"Our hypothesis is that the low-number SKU [stockkeeping unit], high-volume product lines such as belts, filters and plugs are in the upper right-hand corner of the chart and those are product lines that you would want to maintain in your program," Chiang says. The products shown in the chart are hypothetical, but directionally correct, he adds.

"On the other hand, the low-volume, high-value parts tend to be in the lower left-hand corner and are unprofitable, and those are the products TBA is uncompetitive in serving and possibly should be pruned."

Forming alliances

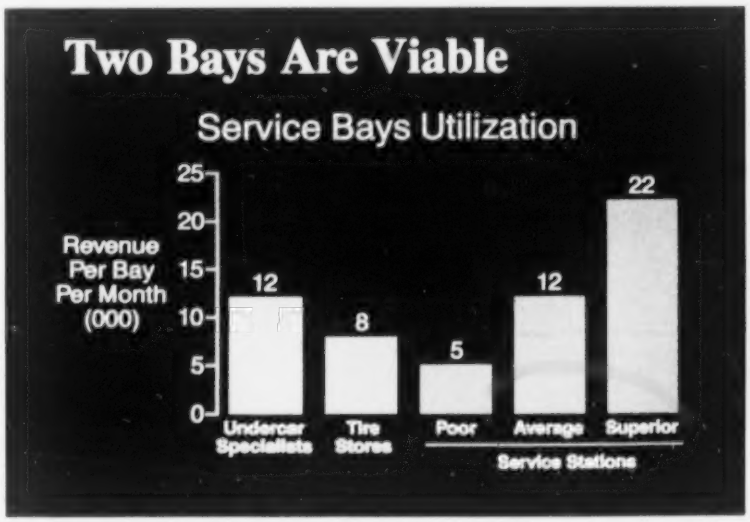
The objective of TBA programs should be to distribute profitable product lines to service station customers and to buy from the most economical sources, says Chiang. "The objective should not be to distribute as many product lines as possible."

But, realistically, "service stations need a full set of product lines to provide adequate service to their motorist customers," and this can be achieved by developing alliances with other aftermarket distributors, for example, national program groups such as NAPA, Big A and AAAD, he says. "TBA programs can provide complete product lines to service station customers and very competitive prices."

Chiang explains, "The program groups play an important role in aftermarket distribution, particularly in distributing slow-moving items. Integrating TBA distribution of fast-moving parts and program-group distribution of slow-moving parts would be a powerful combination."

Chiang further explains that this should not be difficult because the program groups are fighting for market share, are eager to serve national accounts and are undervaluing their service when distributing slow-moving parts in the marketplace.

As the chart clearly illustrates, there are likely certain sets of TBA lines in which oil companies have price advantages and which realize high earns and turns. These are the product lines that oil companies should keep and continue to distribute. The product lines in which the program groups have price advantages are the high-value, low-volume parts which realize low earns and turns. These are the product lines the program group should distribute.



Efficiently operated two-bay service stations often generate higher per bay returns than larger tire and specialist shops.

(Continued from page 69)

wide effort to solve such programs. Hopefully, this will happen before the first hearings on the bill.

Stephen R. Shelton

Steve Shelton, 54, served as the executive director of the Southern California Service Station Assn. for 17 years and chairman of the SSDA strategic planning committee for 2 years until his resignation in April 1991. His 30 years of petroleum marketing experience covers wholesale, retail and association management. He is currently self-employed as a consultant and expert witness on industry matters.

Letters to the Editor, with the writers' names, address and daytime phone number should be sent to The Editor, National Petroleum News, 950 Lee Street, Des Plaines, IL 60016 or Fax: 708/803-3328. Letters are subject to editing for reasons of space and clarity.

Corrections:

In Howard Upton's January column, it was reported that if an underground tank is taken out of service for three months or longer, federal rules require that the tank be removed from the ground, or filled with inert material, etc. The correct period after which these optional actions become required is 12 months, not three months.

Also, the headings on the two charts shown on page 34 in the January issue of *NPN* were incomplete. The heading of the top chart should read: "Average C-Store Merchandise Gross Profit Margin—1991." The heading of the bottom chart should read: "Projected C-Store Gross Profit Margin Increase—1992." *NPN* regrets these errors.

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